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Great Northern Gas Utilities Ltd.

1974 Annual Report



Highlights

	1974	1973	1972	1971	1970
Utility Customers at Year End	39,234	36,796	34,686	32,182	30,369
Utility Gas Volumes (Mcf)	15,228,000	17,460,000	14,723,000	14,018,926	12,705,828
Electricity Volumes (Kwh)	49,515,000	42,382,000	36,469,000	28,504,000	25,298,100
Sales	\$14,650,841	\$12,875,694	\$11,116,306	\$ 9,982,224	\$ 8,948,620
Other Revenue (Note 1)	\$ 1,472,623	\$ 1,123,498	\$ 995,279	\$ 1,030,031	\$ 1,106,148
Cash Flow	\$ 2,910,890	\$ 2,747,006	\$ 2,557,317	\$ 2,414,838	\$ 2,323,967
Net Earnings (Note 1)					
(Before extraordinary items)	\$ 1,707,256	\$ 1,567,220	\$ 1,548,467	\$ 1,451,087	\$ 1,454,800
Working Capital (Exclusive of bank borrowings)	\$ 8,215,719	\$ 7,131,265	\$ 7,107,491	\$ 7,046,544	\$ 6,916,676
Long Term Debt (Inclusive of bank borrowings)	\$18,091,500	\$16,247,500	\$14,914,200	\$14,275,000	\$13,922,900
Annual Additions to Plant					
Utility	\$ 4,264,105	\$ 2,592,867	\$ 2,461,116	\$ 1,685,824	\$ 1,786,298
Other	\$ 243,010	\$ 449,149	\$ 434,443	\$ 326,468	\$ 215,349
Gross Plant					
Utility	\$32,775,353	\$28,610,995	\$26,009,887	\$23,690,666	\$22,150,715
Other	\$ 4,240,073	\$ 4,142,170	\$ 3,763,193	\$ 3,451,331	\$ 3,190,436
Miles of Pipeline (Transmission and Distribution)	4,109	3,467	3,062	2,658	2,521

Note: 1. Before gain on foreign exchange.

Corporate Information

Board of Directors

PAUL M. MARSHALL

Calgary, Alberta

RAYMOND A. RICH

Chairman of Executive Committee

ANTHONY C. ROONEY

Calgary, Alberta

ROBERT C. WHARTON

Calgary, Alberta

Officers

RAYMOND A. RICH

Chairman of Executive Committee

ANTHONY C. ROONEY

Chairman of the Board

ROBERT C. WHARTON

President

ERNEST W. STRAUS

Vice-President, Administration
and Treasurer

JOHN E. CARSTAIRS

Secretary

Subsidiary Companies

Plains-Western Gas & Electric Co. Ltd.

Operating in Alberta, British Columbia
and Yellowknife, N.W.T.

Plains-Western Gas (Manitoba) Ltd.

Operating in Manitoba

Rockgas Utilities Ltd.

Operating in British Columbia

Fort St. John Petroleums Ltd.

Operating in British Columbia and Alberta

Transfer Agents and Registrar

Montreal Trust Company,

Montreal, Toronto and Calgary

Trustee for Debentures

Montreal Trust Company,

Montreal, Toronto, Edmonton and Calgary

Head Office

700 Three Calgary Place, Calgary, Alberta
T2P 0J1



To The Shareholders

Revenues, earnings before income taxes and net earnings increased by 15%, 16% and 8.9% respectively in 1974 over 1973 (restated).

Net earnings for the year ended December 31, 1974 amounted to \$1,707,256 compared to \$1,567,220 (restated). Cash flow from operations increased by 6% to \$2,910,890, compared to \$2,747,006 for 1973. Total revenues for the year were \$16,123,464 compared to \$13,999,192 for the previous year, an increase of 15%. Net earnings attributable to common shares after payment of preferred dividends of \$147,188 were \$1,560,068 compared to \$1,414,333 for 1973. A breakdown of net earnings on a comparative basis is as follows:

	1974	1973 Restated	Increase
From Operations	\$1,061,043	\$1,010,431	5.0%
From Investments	646,213	556,789	16.1%
	<u>\$1,707,256</u>	<u>\$1,567,220</u>	8.9%

Combined sales increased to \$14,650,841 or 13.8% over the previous year. Utility sales were \$11,211,738 compared to \$10,208,212 for 1973, an increase of 9.8%. Propane sales and oil and gas production sales increased by 32.9% over 1973 to \$3,018,624 from \$2,270,916. The increase in sales results from increased consumer rates and the steady increase in customers with the extensions and expansions of the Company's distribution systems, particularly in the rural areas of the Province of Alberta. During the year consumer rate increases were approved by the regulatory bodies in all areas of the Company's operations, however, the full effect of the rate increase will only be reflected in 1975 earnings. These increases, which became effective at different dates during the year, provided for recovery of increases in the unit price of purchased gas, increased expenses and an improvement in the Company's rate of return.

The volume of gas sold during 1974 was 15,228,000 Mcf, compared to 17,460,000 Mcf in the preceding year, which included approximately 3,000,000 Mcf of industrial sales of a non-recurring nature. Sales of electricity in the City of Yellowknife increased during the year by 16.8% to 49,515,000 Kwh. Propane sales were 6,193,000 gallons compared to 6,256,000 gallons in 1973. Cost of gas, propane and electricity sales at \$7,647,054 was 54.2% of sales compared to 53.6% in 1973. Operating, selling and administrative expenses amounted to \$3,123,065 compared to \$2,711,147 for the preceding year, an increase of 15.2%. As a percentage of sales these expenses were 21%, unchanged from the preceding year. Despite the increases in operating expenses and the increased cost of sales, the Company has maintained its margin of operating income. These results were obtained while maintaining the Company's policy of a high standard of service to its customers.

At December 31, 1974 working capital was \$8,215,719 exclusive of bank borrowings and compared with \$7,131,265 a year earlier. At the year end working capital included \$6,378,437 of short term investments. Cash flow from all sources during the year amounted to \$3,031,222 of which \$2,910,890 was from operations. During the year long term debt was decreased by \$451,000 and the Company purchased 3,300 of the Company's Series "A" preferred shares on the security markets with respect to the purchase fund for the outstanding preferred shares.

Capital expenditures during the year, net of contributions in aid of construction, amounted to \$2,595,802 of which \$2,330,884 was for construction in the natural gas and electricity operations. 642 miles of transmission and distribution pipe were installed during the year and at year end the Company served 36,686 gas utility customers through 4,109 miles of pipe in 77 urban communities and 23 rural areas. The number of electricity customers in the City of Yellowknife increased by 5.9% to 2,548. The Company was also serving 6,131 propane customers to whom 6,193,000 gallons of propane were sold during 1974.

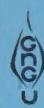
We are optimistic with regard to 1975. It is expected that the increase in customers experienced over the past few years will continue, if not accelerate, and the full effect of increases in consumer rates during 1974 will improve the Company's profitability when applied on a full year basis. The Province of Alberta and the City of Yellowknife in the Northwest Territories are expected to account for the larger part of our growth during 1975 and onward.

On behalf of the Directors of the Company we wish to express their appreciation to all employees of the Company for their efforts in maintaining its record of excellent service to its valued customers.

Respectfully,

Chairman of the Board

President



Consolidated Statement of Earnings

Years Ended December 31, 1974 and 1973

	1974	1973 (restated)
Revenue		
Sales	\$14,650,841	\$12,875,694
Investment income (including \$406,875 dividend from an affiliate in 1974 and 1973)	1,067,337	890,813
Other	405,286	232,685
	<u>16,123,464</u>	<u>13,999,192</u>
Expenses		
Cost of sales	7,647,054	6,628,965
Operating, selling and administrative expenses	3,123,065	2,711,147
Interest and expense on long term debt	1,129,530	959,042
Other interest expense	86,436	71,972
Depreciation	849,830	775,295
Depletion	147,895	166,613
Minority interest in earnings of subsidiaries	182,257	137,219
	<u>13,166,067</u>	<u>11,450,253</u>
Earnings before income taxes	2,957,397	2,548,939
Income Taxes (Notes 1 and 2)	1,250,141	981,719
Net earnings for the year	<u>\$ 1,707,256</u>	<u>\$ 1,567,220</u>
Net earnings per common share	<u>\$.50</u>	<u>\$.45</u>

Consolidated Statement of Retained Earnings

Years Ended December 31, 1974 and 1973

	1974	1973 (restated)
Balance at beginning of year		
As previously stated	\$6,803,712	\$6,689,447
Adjustment to give effect to tax allocation accounting (Note 2)	193,161	132,479
As restated	6,610,551	6,556,968
Add net earnings for the year	<u>1,707,256</u>	<u>1,567,220</u>
	<u>8,317,807</u>	<u>8,124,188</u>
Deduct dividends		
Preferred shares	147,188	152,887
Common shares	860,750	1,360,750
	<u>1,007,938</u>	<u>1,513,637</u>
Balance at end of year	<u>\$7,309,869</u>	<u>\$6,610,551</u>

See accompanying notes.

Consolidated Balance Sheet

December 31, 1974 and 1973


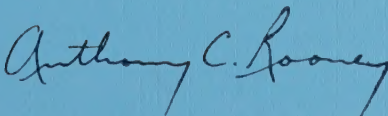
ASSETS

	1974	1973 (restated)
Fixed at cost (Note 1)		
Transmission lines and distribution systems.....	\$29,378,529	\$25,597,498
Land, buildings and equipment.....	3,593,823	3,152,196
Oil and gas properties.....	2,700,657	2,750,981
Customers' installations.....	1,342,417	1,252,490
	<u>37,015,426</u>	<u>32,753,165</u>
 Less		
Accumulated depreciation.....	8,251,771	7,404,069
Accumulated depletion.....	1,124,977	1,092,082
	<u>9,376,748</u>	<u>8,496,151</u>
	<u>27,638,678</u>	<u>24,257,014</u>
 Investments at cost		
7¼% preferred shares of affiliate.....	5,250,000	5,250,000
Other.....	31,273	31,273
	<u>5,281,273</u>	<u>5,281,273</u>
 Current		
Cash.....	106,119	282,168
Short term deposits.....	6,378,437	6,355,000
Accounts receivable.....	3,692,434	2,254,005
Inventories at lower of cost and replacement cost.....	1,430,552	832,365
Prepaid expenses.....	112,388	121,656
	<u>11,719,930</u>	<u>9,845,194</u>
 Other (Note 1)		
Deferred charges.....	301,303	244,910
Cost of shares of subsidiaries over net book value at dates of purchase.....	260,795	263,578
	<u>562,098</u>	<u>508,488</u>
	<u>\$45,201,979</u>	<u>\$39,891,969</u>

See accompanying notes.



LIABILITIES

	1974	1973 (restated)
Shareholders' equity		
Capital (Note 3)		
Authorized		
250,000 6% cumulative redeemable preferred shares, par value \$25 each		
5,000,000 common shares, no par value		
Outstanding		
97,000 preferred shares (1973 - 100,300 shares)	\$ 2,425,000	\$ 2,507,500
3,130,000 common shares	6,034,970	6,034,970
Retained earnings (Notes 2, 3 and 4)	7,309,869	6,610,551
	<u>15,769,839</u>	<u>15,153,021</u>
Minority interest in subsidiaries	1,964,954	1,790,247
Contributions in aid of construction (Note 1)	4,865,787	3,022,880
Long term debt (Note 5)	15,591,500	16,042,500
Deposits	425,373	378,663
Deferred income taxes (Notes 1 and 2)	580,315	585,729
Current		
Bank loan	2,500,000	205,000
Accounts payable and accrued charges		
Trade	2,676,044	2,046,109
Affiliates	351,034	383,762
Income taxes payable	243,502	124,285
Current maturities of long term debt (Note 5)	173,000	113,039
Deferred income	60,631	46,734
	<u>6,004,211</u>	<u>2,918,929</u>
On behalf of the Board:		
 Director.		
 Director.		
	<u>\$45,201,979</u>	<u>\$39,891,969</u>

See accompanying notes.

Consolidated Statement of Changes in Financial Position

Years Ended December 31, 1974 and 1973

	1974	1973 (restated)
Source of funds		
Operations		
Net earnings for the year	\$ 1,707,256	\$1,567,220
Add		
Depreciation and depletion	997,725	941,908
Deferred income taxes	(5,414)	142,724
Minority interest	182,257	137,219
Other	29,066	(42,065)
Cash flow from operations	2,910,890	2,747,006
Disposal of fixed assets	73,531	137,218
Additional long term debt	—	4,508,000
Other	46,801	30,835
	<u>3,031,222</u>	<u>7,423,059</u>
Use of funds		
Additions to fixed assets	4,507,115	3,042,016
Less contributions in aid of construction	1,911,313	514,480
	2,595,802	2,527,536
Redemption of preferred shares	82,500	72,500
Reduction of long term debt	451,000	399,700
Dividends on common and preferred shares	1,007,938	1,513,637
Other	104,528	110,912
	<u>4,241,768</u>	<u>4,624,285</u>
Increase (Decrease) in working capital	<u><u>\$ (1,210,546)</u></u>	<u><u>\$ 2,798,774</u></u>

See accompanying notes.

Notes to Consolidated Financial Statements

December 31, 1974

1. Summary of principle accounting policies

Principles of consolidation

The consolidated financial statements include the accounts of Great Northern Gas Utilities Ltd. and all its subsidiaries. Purchase prices of companies acquired have been allocated to assets based on appraisals and any remaining difference is recorded as "cost of shares of subsidiaries over net book value at dates of purchase".

Fixed assets, depreciation and depletion

Fixed assets are recorded at cost which policy includes the full-cost method of accounting for oil and gas properties. Depreciation is provided on a straight line basis at varying rates from 2% to 25% which are designed to amortize the cost of the assets over their estimated useful lives.

Oil and gas properties are depleted on a unit of production method based on estimated remaining reserves. Limited term interests in oil and gas leases are depleted over their remaining terms of up to three years.

Deferred charges

The companies have deferred in their accounts charges related to preliminary survey and investigation costs, organization costs, financing expenses and costs of public utility rate hearings. Amortization is provided over various terms and as related revenues are earned.

Contributions in aid of construction

Amortization of contributions received in aid of construction is provided in amounts that correspond with depreciation of the related assets.

Income taxes

For income tax purposes the companies claim capital cost allowances (depreciation), drilling, exploration, property acquisition costs and costs of limited term interests in oil and gas leases (intangible costs) and certain other charges in amounts which are different from the related charges to earnings. The companies follow the accounting practice of tax allocation with respect to such differences, except in the case of companies engaged in the operation of public utilities which record only income taxes payable in determining rates.

If the tax allocation basis of accounting had been followed for timing differences related to utility operations the income tax provision would have been increased and net earnings for the year would have been decreased by \$148,000 — \$.05 per share (\$180,000 — \$.06 per share in 1973).

The accumulated unrecorded income tax reductions related to all timing differences in the current and prior years amount to approximately \$1,546,000 at December 31, 1974.

2. Change in accounting policy

In prior years no provision was made for income taxes deferred on non-regulated operations as a result of claiming for tax purposes drilling, exploration, property acquisition costs and costs of limited term interests in oil and gas leases (intangible costs) in amounts which exceeded the related charges to earnings.

In 1974 the Company adopted, retroactive to 1969, the practice of tax allocation accounting with respect to non-regulated operations under which income taxes are provided based on earnings derived from such operations.

The effect of this change was not material to consolidated net earnings in 1974. In 1973 consolidated net earnings were decreased by \$60,700 — \$.02 per share and retained earnings at January 1, 1973 were decreased by \$132,500.

3. Capital

Under the provisions relating to the outstanding preferred shares the Company is required to expend \$60,000 annually for redemption of preferred shares, if available on the open market, at a price not exceeding \$24.50 per share. The Company has satisfied this obligation to July 31, 1977. In addition, the preferred shares are redeemable at any time at a price of \$26.25 per share.

To December 31, 1974, the Company has redeemed 29,045 preferred shares of an aggregate par value of \$726,125 (3,300 shares during 1974). Accordingly, consolidated retained earnings include \$726,125 designated as "capital surplus" under the provisions of the Canada Corporations Act.



4. Dividend restrictions

The provisions relating to the preferred shares and the promissory notes contain restrictions as to the declaration and payment of cash dividends on common shares, the most restrictive of which at December 31, 1974 limits the payment of such dividends to an amount which would not exceed \$1,802,000.

5. Long term debt

	1974	1973
6% Sinking Fund Debentures, Series A due 1985	\$ 7,317,500	\$ 7,594,500
7-1/4% Promissory Note, due 1989 (\$3,840,000 U.S.)	3,840,000	3,880,000
8-5/8% Promissory Notes, due 1993	4,500,000	4,500,000
6% Sinking Fund Bonds, Series A of a subsidiary, due 1976	99,000	143,000
7% Notes payable	8,000	38,039
	<u>15,764,500</u>	<u>16,155,539</u>
Less current maturities included in current liabilities	<u>173,000</u>	<u>113,039</u>
	<u>\$15,591,500</u>	<u>\$16,042,500</u>

Long term debt repayments in each of the five years subsequent to December 31, 1974 are as follows:

1975 — \$173,000; 1976 — \$184,000; 1977 — \$332,500; 1978 — \$395,000 and 1979 — \$570,000.

6. Other statutory information

During the year the Company had nine directors and five officers who received the following remuneration:

	Directors	Officers	Total
By the Company	\$6,400	\$140,400	\$146,800
By subsidiaries	2,100	500	2,600
	<u>\$8,500</u>	<u>\$140,900</u>	<u>\$149,400</u>

Three of the officers are directors of the Company.

The remuneration paid to directors and senior officers of the Company during 1974 (defined by The Securities Act of Ontario as including the five highest paid employees of the Company and its subsidiaries) amounted to \$167,330.

Auditors' Report

To the Shareholders of
Great Northern Gas Utilities Ltd.

We have examined the consolidated balance sheet of Great Northern Gas Utilities Ltd. and subsidiaries as at December 31, 1974 and the consolidated statements of earnings, retained earnings and changes in financial position for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these consolidated financial statements present fairly the financial position of the companies as at December 31, 1974 and the results of their operations and the changes in their financial position for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year after giving retroactive effect to the change to tax allocation accounting described in Note 2 of the consolidated financial statements.

Calgary, Canada.
February 18, 1975.

Clarkson, Gordon & Co.
Chartered Accountants.

